RECIPROCITY.

I DO not propose, in the following pages, to consider the details of the reciprocity arrangements concluded within the last year or two under the provisions of the tariff act of 1890. My object is chiefly to discuss the mode in which reciprocity treaties usually operate, to point out the peculiarities of the form of reciprocity which this country is now applying, and to say something of the general bearing of such arrangements on the problems of international trade.

The mode of reciprocity provided for in the McKinley Tariff Act is unusual. The act gives authority to the President to reimpose duties on certain articles ordinarily admitted free,— tea, coffee, molasses, sugar, hides,— if he is satisfied that other countries, from which these articles are sent to the United States, fail to reduce their duties on American goods to such an extent as to constitute a reasonable equivalent for our remission.* In other words,

* The often-quoted reciprocity section of the tariff act of 1890 may be quoted again: "That, with a view to secure reciprocal trade with countries producing the following articles, and for this purpose, on and after the first day of January, 1892, whenever and so often as the President shall be satisfied that the government of any country producing and exporting sugar, molasses, coffee, tea, and hides, raw and uncured, or any of such articles, imposes duties or other exactions upon the agricultural or other products of the United States, which, in view of the free introduction of such sugar, molasses, coffee, tea, and hides into the United States, he may deem to be reciprocally unequal and unreasonable, he shall have the power — and it shall be his duty — to suspend, by proclamation to that effect, the provisions of this act relating to the free introduction of such sugar, molasses, coffee, tea, and hides, the production of such country, for such time as he shall deem just, and in such case and during such suspension duties shall be levied, collected, and paid on sugar, molasses, coffee, tea, and hides, the product of or exported from such designated country, as follows": on sugar, about one cent a pound on the ordinary grades; molasses, four cents a gallon; coffee, three cents a pound; tea, ten cents a pound; hides, one and a half cents a pound.

a threat of imposing duties on their goods constitutes the pressure brought to bear on foreign countries. The usual mode of reciprocity is different. It does not threaten the imposition of new duties, but offers the reduction of existing duties. That the United States adopted a form of reciprocity which has an aspect perhaps of greater vigor and certainly of less courtesy is not the result of any deliberate policy. Like so many things in our tariff legislation, it arose without premeditation. The articles to which the reciprocity provisions apply had already been made free of duty on grounds independent of any desire to further foreign commerce. Tea, coffee, and hides were freed from duty twenty years ago. The abolition of the sugar duty had been settled in the early part of the session of 1890, before the reciprocity scheme emerged. It was impossible to apply to these articles the usual machinery of commercial engagements; and, when a policy of reciprocity was suddenly determined on, the only way of carrying it out was the peculiar one which was finally adopted, as an afterthought, in the tariff act of 1890.

Before discussing the workings of this unusual form of reciprocity, we may consider briefly the effects of the usual form,—the remission or reduction of duties in return for similar favors by foreign countries. Reductions of this sort have very different consequences according to the conditions under which they are applied. In some cases, they redound to the benefit of the foreign producer: in others, they redound to the benefit of the domestic consumer. Some consideration of these two possible effects will be helpful for the understanding of the general workings of any form of commercial engagement.

Suppose the remission of duty, under the usual form of reciprocity, to be applied to one country only. Suppose, for example, that we remitted the duty on coffee coming from Venezuela, retaining it on coffee coming from other countries. The Venezuelan coffee-planters, and not the

American consumers, would get the benefit of the remission. Venezuela supplies — or, rather, supplied — only one-tenth of our consumption of coffee. The remaining nine-tenths, coming from other countries and still paying duty, would be higher in price in the United States by the amount of the duty. The Venezuelan coffee-planters would not sell their coffee for less than other people got: why should they? They would simply pocket the amount which otherwise would have been paid in duties. In general, it may be laid down that any remission of duty which does not apply to the total importations, but leaves a considerable amount still coming in under the duty, puts so much money into the pockets of the foreign producer.

The United States has had one very striking experience of this sort of reciprocity. The treaty made with the Hawaiian Islands in 1876 stipulated for the free admission into the United States of certain commodities, among which sugar was the most important. In return, we got similar remissions in the Sandwich Islands. Hawaiian sugar was admitted free: other sugar paid duty. The Hawaiian sugar formed at the outset only a small fraction of the total supply; and, though it grew very rapidly under the treaty, it never formed more than a tenth of the supply. It was sold, naturally, at the same price as other sugar paying duty; and the American consumer who used it paid a tax in the shape of a higher price, exactly as he paid a tax on duty-paying sugar. The tax, however, went not into the national treasury, but into the profits of the Hawaiian sugar-raisers. Throughout the period when Hawaiian sugar was free and other sugar paid duty, the price of sugar on the Pacific coast, where the Hawaiian sugar was used, was fully as high as it was elsewhere. Whoever got the benefit of the remission of the duty, it was not the consumer. In this particular case, it should be added, there were some complicating

conditions. The capital invested in sugar-raising on the Sandwich Islands was largely owned by Americans. Consequently, the virtual tax still paid by sugar-consumers inured to the benefit of other Americans rather than of foreigners. The effect was much the same as if the tobacco-growers of the Connecticut Valley had been freed from the tobacco tax while other growers still had to pay it. Further, the business of refining this Hawaiian sugar on the Pacific coast got into the hands of a single establishment, the owners of which were largely the same persons who had invested capital in sugar-raising in the Sandwich Islands. These fortunate individuals consequently added the profits of a monopoly of sugar-refining to the profits of a tax paid for their benefit by the consumers of sugar. The Hawaiian treaty therefore presented peculiarities in more respects than one. But we are here concerned chiefly with that aspect of it which bears on the subject of the present article,—the effect on sugar consumers and producers. It was clearly the latter who benefited by the arrangement.

Suppose now a different sort of case,—a remission of duty not to a single country, but to a number of countries, so considerable and important that all the importations come in free of duty. Here the change redounds to the benefit of the domestic consumer. No articles continue to come in paying duty, and the remission is virtually the same as a general reduction or abolition of the duty. The effect is the same if the favor is granted to only one country, but that country is able to supply the entire consumption. If, for instance, by a treaty with Australia, wool from that country were admitted free, the effect would be the same as relieving fine wool entirely from duty. The amount of such wool raised in Australia is so great that all we should use would come in duty free; the price would go down by the amount of the previous duty; the domestic purchasers of wool and eventually the

domestic consumers of woollens would get their goods so much cheaper.

The most important illustration of this effect of reciprocity treaties in recent times is to be found in the experience of European countries after the famous commercial treaty between England and France. France, after having maintained for centuries a rigid system of high duties, made a treaty with England, in 1860, by which English commodities were admitted at very moderate rates. England in return abolished entirely her duties on silks, and lowered her duties on French wines. The changes made by England were, from the first, of general application: all countries were free to take advantage of them. France, it is true, began by extending her favors to England only. It is probable that, even if they had never been extended to other countries, they would have worked like our supposed remission of duty on Australian wool, and not like our Hawaiian treaty. England would have been able to supply most of the goods in ample quantity, and the French consumers would have had the benefit of the remission. But any doubt on this point was settled by the prompt conclusion of treaties giving the same favors to other countries,— to Germany, Austria, Belgium, Italy, Switzerland, and so on. These countries were given the same favors as England, and in return conceded reduction of duties on French goods. In effect, therefore, the machinery of reciprocity led to the general application of a more liberal tariff system in France. Moreover, other countries were led by the example of France to the same course. Germany (or, to speak accurately, the Zollverein), having concluded the treaty with France, soon made similar engagements with other countries; Austria, Belgium, Switzerland, Italy, followed suit; and in a few years after 1860 Europe was covered with a network of commercial treaties, bringing about a great moderation in the general tariff policy of all the continental countries.

A more recent case of the same sort is to be found in the commercial treaties concluded by the German Empire during the present year. For one reason and another France tired of the system of commercial treaties, and has just substituted for it a different *régime*, one not only of a distinctly protectionist character, but involving a threat of higher duties on non-reciprocating countries, which is not very different from the sort of reciprocity just established by our own legislation. Oddly enough, at the very moment when France is thus dropping her commercial treaties, Germany is again entering that path. The recent treaties concluded with Austria, Italy, Belgium, Switzerland, provide for reciprocal reductions duties, which amount virtually to general reductions and so redound to the benefit of the consumers in the respective countries. Thus Germany lowers her duties on wheat and Indian corn, when imported from the treaty countries; but this reduction has already been extended to grain coming from the United States, and undoubtedly will soon be extended to Russian grain. Of the bearing of this latest move of Germany's on our own reciprocity scheme, more will be said presently. So far as German consumers are concerned, they will certainly get the benefit of the change: their bread will be cheaper.

Obviously, the probabilities are strong that a remission of duties by way of commercial treaty or reciprocity will operate in this second way. Cases like our Hawaiian treaty are rare: a country will not often accept a loss of revenue, and transfer a gain to foreign producers, by remitting a duty on a portion only of its imports. Ordinarily, the remissions of duty by treaty to favored countries become, in fact, general remissions, and serve simply to make trade more free between a large number of countries.

From this sketch of the character and working of the ordinary form of reciprocity, we may turn to a considera-

tion of the peculiar form adopted in our tariff act of 1890. Here the plan is not to remit a duty for countries granting favors, but to impose one for countries failing to grant them. A duty so imposed, like one remitted, may have very different effects, according to the conditions under which it is applied. As the remission of a duty may or may not operate for the benefit of the domestic consumer, so the imposition of a duty may or may not operate to his detriment.

Suppose, for example, that a duty is imposed on coffee coming from Venezuela,— a duty which has actually been imposed under the reciprocity provisions. The revolution in that country, as it happens, has complicated the effects of the measure; but it is not difficult to see how it would work under undisturbed conditions. Venezuela supplies us in ordinary times with about one-tenth of the coffee we use. The remainder comes from other countries, chiefly from Brazil. If a duty were imposed on the Venezuela portion, the price, nevertheless, would not rise in the United States; for Brazil coffee would still come in free, and somewhat more of it would quickly come this way if the price rose. The Venezuelans must either sell their coffee to us at a price lower by the amount of the duty — *i.e.*, they must pay the duty — or else must send their coffee to another market. The latter result would undoubtedly ensue. It might take time to form new trade connections, and might cause temporary loss to introduce their coffee to a new set of consumers; and the embarrassment, while it lasted, might be considerable. But it could hardly last very long; and, at all events, this temporary loss would represent the effect of the measure on the non-reciprocating country. The American public would not be affected.

The situation would be very different, however, if the duty were imposed on coffee coming from Brazil. The bulk of our coffee comes from that country, and it would be difficult to secure the supply from other sources.

Other coffee would indeed come in duty free; but it could not begin to supply our entire consumption. A duty on Brazilian coffee would cause the price to rise in the United States, and the American consumer would pay the tax. Of course, the price of all coffee would go up,— not only of the Brazilian article, but of any other of the same sort that might also come in. Producers in other countries would get the higher price of coffee, but their product would not be subject to the duty: the American consumer would be taxed for their benefit. The situation would be virtually the same as that under the Hawaiian treaty. If one indispensable part of the supply is taxed, the price of the whole supply goes up: those producers who are exempt — the Hawaiian sugar-planters in the actual case, the non-Brazilian coffee-planters in the supposed case — pocket the amount of the tax.

In general, then, it may be said that a duty imposed under our reciprocity legislation will hurt the foreign producer — perhaps hurt him only for a time, but yet hurt him — if he does not furnish a very great part of our supply, and if other countries can easily step in his place. But if the foreign producer sends us the bulk of the supply, and if others cannot fill his place, the duty will tax the American public, and will put money into the pockets of other foreign producers. We have seen how a duty on coffee from Brazil would work. A duty on hides from the Argentine Republic would probably work in the same way. Our imported hides come in large part from that country, and a duty on them would raise their price here. A duty on sugar from Cuba would work, for a time at least, in the same way. It is true we are not so dependent on Cuba for sugar as we are on Brazil for coffee. Other countries contribute to our sugar supply, and could in time greatly increase their contributions. But Cuba is much the most important source of sugar for us, supplying a full third of the total imports; and a duty on

Cuban sugar would cause the price of sugar to go up. After a while, no doubt, by a shifting of the sugar markets and perhaps some changes in production, other countries might send enough free sugar to us to supply our entire consumption, while Cuban sugar would go to England and to other countries not discriminating against it. But, at first, we should pay more for all our sugar; and some part of our extra payments would go to the countries, other than Cuba, from which our supplies come.

Practically, however, we are hardly called on to consider the consequences of a duty on Brazilian coffee or on Cuban sugar. It is very improbable that such duties will be imposed. The President is not likely to exercise his discretionary power in such a way as to bring about a tax on American consumers, least of all a tax which would redound in part to the benefit of foreigners. With important countries, like Cuba and Brazil, a diplomatic use of the possibility of discriminating duties will be relied on. With the Argentine Republic the situation has been different. The financial condition of that country has made it out of the question to secure any lowering of its duties on American goods; yet no duty on its hides has been imposed, or is likely to be. Smaller countries can be brought to terms with ease. One can be played off against the other, and pressure can be brought to bear on them with little danger of hurting the domestic consumer. The only case of any importance in which a discriminating duty has in fact been imposed is that of Venezuela, already referred to.

So much as to the effect of the possible imposition of our duties on the American consumer and the foreign producer. But there is another important aspect of the reciprocity questions,—the effect on foreign countries of the concessions granted by them on American goods. How will these work?

We ask of other countries, in return for refraining from

duties on their products, concessions of the usual sort,—lower duties, or none at all, on American imports. We demand such favors chiefly from the countries of South America and Central America. The very list of articles on which the reciprocity clause authorizes duties — coffee, tea, sugar, molasses, hides — points to these countries. The mention of tea, it is true, seems to indicate that some effort is to be made with China and India. But nothing has yet been done in that direction; and, indeed, the conditions here are in any case such that a duty would prove a two-edged sword. There is one other region in which concessions have been sought and obtained, and of which a word may be said. The threat of imposing duties on beet-sugar from Germany and Austria has been used to induce these countries to admit American articles at the lower rates which these countries have granted, each to the other, by the treaties concluded in the present year, to which reference was made a moment ago. So far as Austria is concerned, these lower rates are nominal, since the articles affected are such as the United States never would export to Austria under any conditions. With Germany we get a more substantial concession. Some agricultural products, especially wheat, are admitted at the lower duties of the new treaty tariff. Clearly, the concession is one which it was for Germany's own advantage to make. When Hungarian wheat was once admitted at a lower duty, it was best to admit American wheat also at the same rates. It was not difficult, therefore, to secure this favor from Germany in exchange for a promise to let German sugar alone.

But, to repeat, it is the South American countries that the reciprocity scheme chiefly looks to; and it is in the concessions granted by them that we are likely to find its most important effects.

There are two sorts of goods which we may send to the South American countries: first, goods which we produce

very cheaply and in great abundance; second, goods which we do not produce as cheaply as European countries. In the first class belong most agricultural products, especially breadstuffs and meats, and many manufactures, such as furniture, wooden ware, and most tools and implements. In the second class belong articles like woollens, linens, crude iron, and many miscellaneous manufactures. The reader will see at once that remissions of duties will have very different effects on these two classes of goods. On articles of which breadstuffs are representative, lower duties in the South American countries will operate virtually as lower duties for all comers. In wheat, flour, meat products, the United States is the natural source of supply for Cuba, Brazil, and other countries. Lower duties or free admission will bring lower prices to the consumers in the South American countries, and will serve to enlarge the volume of trade between them and the United States. The same holds good of those manufactured goods, not a few in number and importance, in which we have advantages in production. I have mentioned wooden ware and furniture: the list might be indefinitely extended. A wider range of international trade brought about in such articles will be advantageous to both countries.

The advantage to the United States from such arrangements is almost always assumed, in current discussions, to be secured by the domestic producer of the exported articles, and especially by the farmer. But both the extent and the duration of any such advantage are much overrated. Its extent is overrated, because, after all, the volume of our trade with the South American countries is small, and is likely to remain small. The bulk of our agricultural exports goes to Europe. Its duration is overrated, because any increase in foreign demand for our wheat and corn and meats is likely soon to be met by increased production at home, leaving the producer in

about the same position as he was at the outset. The real and permanent gainers will be the consumers in both countries,—the consumers of our breadstuffs and manufactures in South America, and our own consumers of the commodities imported in exchange from South America or elsewhere. I fear it will be long before this mode of looking at the problems of international trade becomes accepted by the general public. The common notion is still that the great object of international trade is to sell, to dispose of the exports. No doubt the process by which a gain in exports redounds to the advantage of the consumers of the imports is a less certain and unfailing one than the usual expositions of the Ricardian doctrine would lead one to suppose: here, as elsewhere, the machinery of trade works out its permanent and important results but slowly. Nevertheless, it is certain that the consumers of the imports are the persons who gain in the the long run by an enlargement of international trade, whether secured by reciprocity or any other way.

Looking now at the second class of goods on which South American countries may be asked to concede lower duties, we find different conditions. These are goods which the United States does not produce so cheaply as foreign countries. Here a remission of duties might cause a loss of revenue for Cuba and Brazil, without a gain to their consumers. American woollens, for instance, might make their way in at lower duties, and yet might be as dear as English woollens at higher duties. In such a case, the United States would be in the ungracious position of forcing a friendly power, by a threat of duties on its goods, to make a concession which would involve a clear loss to its own citizens. But the case is one not likely to occur in practice. Goods of this sort have not been usually included in the list of articles on which, by the treaties recently concluded, duties have been lowered or abolished. The articles affected have been chiefly of

the class described in the preceding paragraph,— those which the United States produces abundantly and cheaply. Breadstuffs have been by far the most important among them. The manufactured articles enumerated have in the main been such as we make to at least as good advantage as other countries. One possible exception of importance is in the case of cotton manufactures, which have been admitted at lower duties by some of the treaties, and which, in the qualities demanded by South American consumers, our New England manufacturers perhaps could not supply so cheaply as those of old England. It may be said, in passing, that cotton goods are, so to speak, on the line, the margin of difference in price between the American product and the European one being a very narrow one. In such cases, the choice of one product rather than of another is much affected by custom, tradition, the stronghold of established connections. A reciprocity arrangement, giving the United States a preference in duties, might here shift the trade into American hands without causing any real disadvantage to the South American consumer.

But such a change, merely from the reciprocity provisions, is not likely to take place, for another reason. Any lowering of duties which really redounds to the disadvantage of the domestic consumer is not likely to endure. Such reductions are certain, sooner or later, to cease to be preferential: they will be given to all comers. As I have already said, a discrimination such as we gave the Hawaiian Islands, leading to loss of revenue to the government and no cheapening in price to the public, is very exceptional. The experience of European countries shows that favors in duties soon cease to be favors, being given practically to all countries. The South American countries, so far as they make treaties giving the United States a real advantage over foreign competitors, will extend their provisions to foreign countries. And, surely,

no generous-minded American would wish that it should be otherwise. Unless we regard international trade as a game in which each party tries to overreach the other, we must put our relations with foreign countries on a basis which insures a benefit from the exchange to all parties.

The net result of the reciprocity arrangements, therefore, will probably be not to bring special gains to any particular sets of producers, but to enlarge a trifle the general volume of international trade, and so to diffuse more widely the benefits of the division of labor between nations. The gain to the United States will not be great in degree, simply because the volume of our trade with the South American countries is not large, nor likely for some time to become large. In kind, the gain will be of the same sort as would ensue if we lowered other duties or induced other countries to lower their duties still farther. The procurement of imported commodities in exchange for exports, which is the essential benefit of international trade, is usually — I will not say always, but usually — hampered to our detriment by protective duties. If reciprocity arrangements for lowering or abolishing duties on both sides are advantageous, a moderation of our protective duties may be expected to be also advantageous.

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